Russian Centre of Islamic Economics and Finance

Perspectives of Islamic Economics and Finance

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The aim of the presentation

The presentation is a non strict scientific research, but its only the view point of the author on the current situation and prospective of developing the Islamic Economics and Finance (IEF)

The aim of the presentation:

1. Determine the key factors, which will affect on the development of the Islamic Economics and Finance
2. Estimate perspectives of the development
3. Illuminate problems that the Islamic Financial Institutions (IFI) have to think about (ones more time) within the period the global finance crises

Islamic Economics

Economics is the field of human life, concerning production and consumption of material and nonmaterial goods

Islamic Economics is based on and doesn’t contradict to Islamic rules

Unfortunately, author doesn’t have information about the true size of Islamic Economics (which is wider that the IFI), but considers that it may be assessed by the size of Islamic financial industry

Facts and data

Size of Islamic financial industry (history of half a century):

- *More than 500 Islamic financial institutions in over 75 countries*
- *The size of Islamic financial assets in 2007 is about $730 bln. (IFSL, Islamic finance 2009)*
- *Annual growth of the sector – about 15%*
- *Serious perception and growing Islamic financial system is not only in Muslim countries, but in non Muslim as well*

However …

Data to compare:

- *Assets of largest 1,000 banks in 2007 – $74,2 trln. (IFSL, Banking 2008)*
- *The size of Islamic financial assets per (Muslim) capita in 2007 - $456 ($730 bln. $/ 1.6 bln. people)*
- *Assets of largest 1,000 banks per capita in 2007 – $11 072 ($74,2 trln. $ / 6.7 bln. people)*

Common simple resume

Notwithstanding, *for the day being formal Muslims are 1/4 of the world population, the size of assets that is to conform moral values and religion principles of these people is so far from reaching this figure!*

Common simple resume about perspectives of IEF

In case of formal Muslim people won't forget about their religion

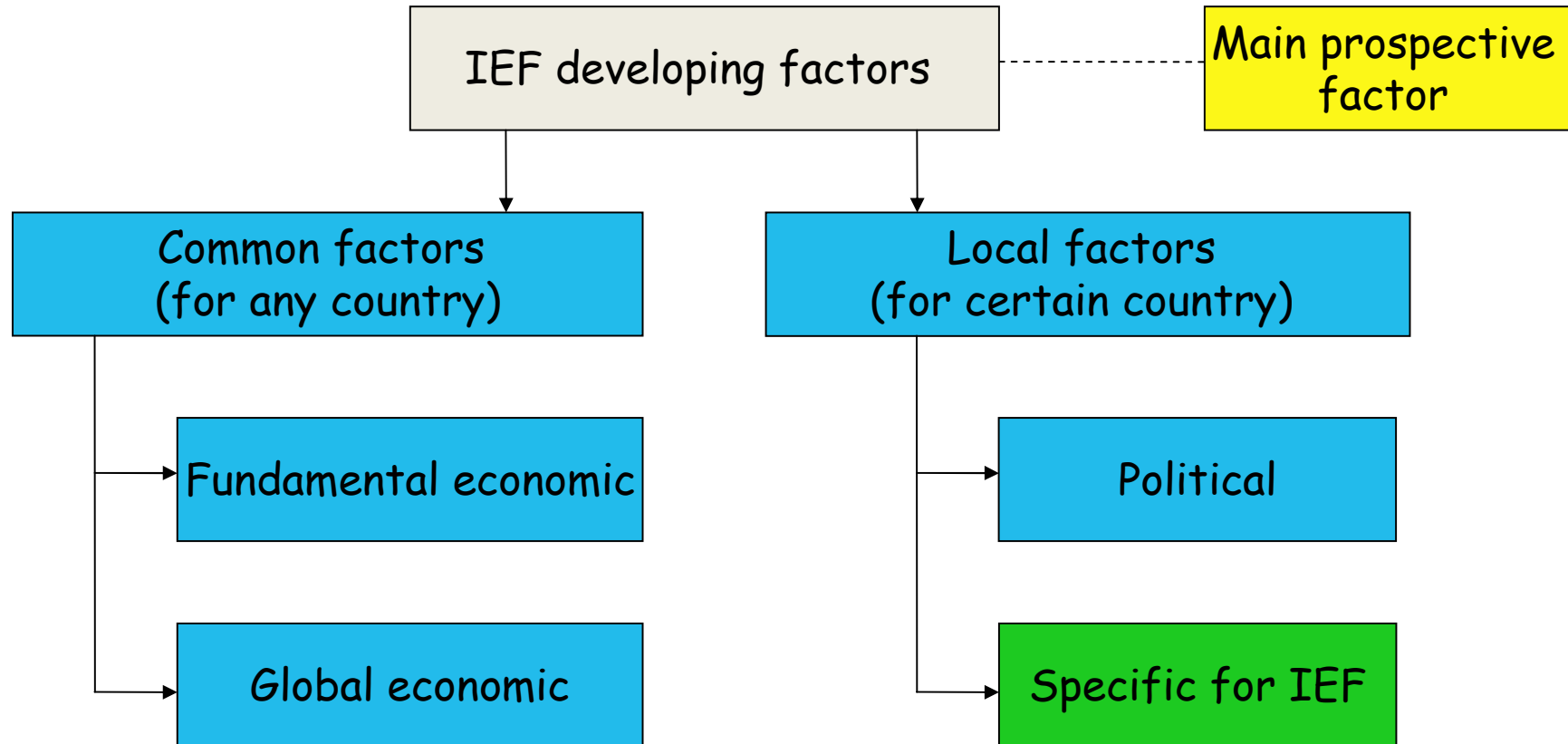
Considering the figures above, and also forecast of increasing of the Muslim population share in the future

We may say, that IEF has all prospective to continue its impressing growth

Islamic financial Industry estimated to reach up to $2.8 trillion by 2015

IEF developing factors

IEF developing factors ---- Main prospective factor

- Common factors (for any country)
  - Fundamental economic
  - Global economic
- Local factors (for certain country)
  - Political
  - Specific for IEF

----*Main prospective factor*

---- *Unspecific for IEF factors*

---- *Specific for IEF factors*

Main perspective IEF factor

Main factor which (in author's point of view) will still determine the IEF development (not only in quantity but in quality) in the world in future is the religious self-consciousness of Moslems

Factors, which may affect on the self-consciousness on the level of government:

- ✓ *Loyalty of the authorities to Islam in the country*
- ✓ *Level of Islamic educations in the country, access to the world religious (Islamic) knowledge*
- ✓ *Independence and development of the mass media*
- ✓ *The power of own culture (which is affected by Islam), and also the rate of external (Non Muslim) culture affect*
- ✓ *The last historical events (wars, revolutions, instability etc) and so on.*

IEF common developing factors

Common factors are factors, which any economic and financial systems development (capitalistic, regulated or Islamic) depend on

Fundamental economic factors, which may affect on development of any economic and financial systems and IEF as well:

- ✓ *Quality and quantity of natural resources*
- ✓ *Quality and quantity of human resources*
- ✓ *National educational system development*
- ✓ *Level of technical progress*
- ✓ *Labor productivity, efficiency of resources consumption*
- ✓ *Financial system development*
- ✓ *Investments volume and so on*

IEF common developing factors

Common factors are factors, which any economic and financial systems development (capitalistic, regulated or Islamic) depend on

Global economic factors, which may affect on development of IEF and any other economic and financial system:

- ✓ *National Economy globalization level, international political and economical cooperation level*
- ✓ *International economy current situation (growth, decline, recession, crises etc)*
- ✓ *Balance of trade of the country*
- ✓ *Prices of energy and other natural resources in the world markets and so on.*

IEF local developing factors

Local factors are factors, which usually have not a fundamental (common) character, but concern a certain country, its political and economical regime, which differentiate it from others countries. Such factors affect of IEF developing more directly.

Political factors, of every certain country:

- ✓ *Government and political system of the country*
- ✓ *How strict is the legislation, regulating economical activities in the country and taxation system*
- ✓ *Political stability*
- ✓ *Availability of business supporting programs, development of the national economy and so on*

IEF local developing factors

IEF specific factors development are, factors, which usually have a direct effect on IEF development in the country.

Specific for IEF factors:

- ✓ *Presence of Moslems, willing to live fully according to Islamic rules in the country and the level of their activity*
- ✓ *The government support to IEF, level of sincerity such a support (isn't it just a politics?), the power of such support*
- ✓ *Level of national economic development*
- ✓ *Legislation, taxation system development, regulating IEF*
- ✓ *Global IEF standardization level, from the Sharia point of view, the level of Sharia expertise institutions development*
- ✓ *Islamic financial system development (Islamic banks, investment, leasing, takaful companies, money and capital markets ...) and educational system (In a field of IEF) inside of the country and so on.*

Resume of IEF perspectives

When there are facts of developing perspectives of IEF, considering the minor share of IEF to the Moslems population share, main factors which will determine the IEF development in the world in future are the religious self-consciousness of Moslems and conditions for IFI development in every certain country, while other factors (common and political), will affect on the quality of the base of such development.

Resume of IE perspectives

Concerning perspectives of Islamic Economics (excluding IFI), for Muslims to do business frank and fairly (what Islam is about) it is not necessary to set up a special Islamic conditions inside the country (which we talked above). However, IFI development will be one of the key factors to the Islamic economics development.

Some notes about IFI and the global crises

✓ *According to the economists opinion, one of the reasons to the global financial crises was the "dept culture" and as a result of the situation where dept level in fact was higher than the size of the real economy.*

✓ *It is considered, that such a situation is low-probability in Islamic banking, because its classical instruments (murabaha, salam, istisna, ijara, musharaka, murabaha) always based on real economic asset or business.*

✓ *However , it's not a secret that for today major income share of most of Islamic banks are formed by such instruments as, for example, murabaha, ijara, istisna. Which provides fixed income, and as basis of pricing in such instruments, standers of conventional banking are often used such as LIBOR, for example.*

Modern IFI – as an alternative to conventional system

Because of the real IFI model differs from ideal, the author has questions:

1. *Can the prevalence of Islamic banks actives instruments which have no much difference in their economic essence than the conventional banks (according to many of people point of view), guarantee the absence of "bubbles" in the economy, causing negative financial and economic events and causing a damage to society in case of its destruction?*

2. *If the answer to the previous question is negative, then how it is possible commenting on the prospective of influence on economy such instruments of modern Islamic banking as tawarruk, bai ina, bai dain, for example?*

Modern IFI – as an alternative to conventional system

From the author point of view there are several main reasons for the real IFI model differs from ideal:

1. *Islamic finance untill today is still at a stage of it’s formation and development*

2. *Majority of Moslems religious “cold" , for many of which dosen’t make difference, services of which financial institutions to use - traditional or Islamic*

3. *Deficiency of highly skilled personnel resources for IFI arrowned the World*

4. *Facts of that many managers and employees of IFI came from traditional financial sphere and financial and economic education system*

Questions to IEF in the terms of global financial crises

It is a fact, that in a period of global financial crises IFI demonstrates more stability and social-ethic benefit for society, comparing to conventional institutions due to absence of toxic assets in their instruments and operations financing prohibited by Islam sectors.

However, notwithstanding on its initial allowance in Islam, in its economic essence, prevail part of asset operations in IFI are similar to the conventional

Question that we have to answer today:

Wouldn't the modern trend (growing in portfolio of IFI products which are similar to conventional) lead us to the situation when the Islamic financial system will have problems which the conventional system are facing today, which proved its own inefficiency and evident harm to the majority of planet population?

Instead conclusion

The author of this presentation is sincerely convinced that in this world basically there can be no alternative to Islamic economy and finance, from the human justice point of view, achievement of good life being for all people, and, the most important thing, blessing of the Creator

However, *IEF today proves that statement only on a papers*

Therefore the author considers, *that the time has come for all of us (authorities, experts, scientists and other participants to IEF) to think and start acting for transition of IEF from a stage of the initial formation to a stage of strengthening and achievement of our ideals. And the lessons of the global financial crisis as so the potential for the further growth of IEF in the world should create a real stimulus for this purpose!*

THANK YOU
AND
WASSALAM!!!